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Case study of PPP for Automation of Revenue Agencies and Registrar General’s Dept. in Ghana (under eGhana Project)

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• Development Objective of the eGhana Project
• Objective of the e-govt PPP for GRA and RGD
• Rationale for RBF PPP
• Roles and Responsibilities of Partners
• Challenges, Opportunities and Lessons of RBF PPP
Development Objective of eGhana Project

• Generate growth and employment by leveraging ICT and PPPs to: i) develop the IT Enabled Services Industry, and ii) contribute to improved efficiency and transparency of selected government functions through e-government applications.

• Under ii) above, currently 5 applications as follows with different RBF options:
  1. e-govt PPP for Ghana Revenue Authority  
     At implementation stage
  2. e-immigration
  3. e-justice
  4. e-parliament
  5. e-procurement  
     At tendering and design stage
Objectives of the egovt. PPP for GRA and RGD

- Re-engineer business processes, deploy state of the art application software and hardware, and best in class solutions for the Ghana Revenue Authority and the Registrar General’s Office.

- Expected to:
  - increase compliance, transparency and broaden tax base
  - Reduce incidence of fraud
  - Upgrade Government employee skills
  - Become the template for upgrading other agencies
Structure of Partnership

- PPP similar to deferred payment (based on results) with interest rate assigned to deferred period and amount, but with all risks associated with originating such deferred payments supported by the private partner – motivation for private partner to ensure optimum design and outcomes

- **Total Contract Value** – US$59,866,648.08 (investment plus recurrent cost over period of 5yrs) for design, build, operate, maintenance and transfer of electronic systems for the Ghana Revenue Authority (previously 4 revenue generating agencies -IRS, VAT, LTU, RAGB).

- **Public Partner** – Gov. of Ghana represented by Mins. Of Comm. through the National Information Technology Agency (NITA)
  - Financial Contribution of US$20m from GoG through eGhana Project for upfront payments

- **Primary Private Partner** – GCNET (Shareholders: 60% - SGS, Switzerland+ Ecobank, Ghana Commercial Bank, CEPS, Shippers’ Council). GCNET has some 14 approved Subcontractors.
  - Financial Contribution of US$40 payable beyond GoG Advance Payment
Why PPP/RBF vs Supply Contract - Earlier Lessons from Ghana PUFMARP/BPEMS (1)

- US$13million **Supply contract** to design unified systems, processes, and procedures for expenditure controls and link 79 sites in the capital and the main provincial areas of the country

Rated Unsatisfactory at ICR for reasons including:

- Coordination problems between inter-related component parts with different software and hardware suppliers
- Changes in key project personnel on Government and contractors sides
- Interruption of services by some contractors due to divergence of views with GoG on their performance and contractual obligations
- At the end of the project, accounts and financial reports were still produced using parallel and manual systems.
- Moreover, the cost of implementing BPEMS initially estimated at US $13.24 million increased to US$19.88 million at ICR preparation, reflecting a 50.15%
Why PPP/RBF vs Supply Contract – Earlier Lessons from Ghana GCNET Customs (2)

From....

Administrative Work, Error Prone
Paper-based, Time Consuming
---High Costs, Duplicative Controls, Unnecessary
Delays, Reactive Approach -- weeks to clear consignments

To....

Networking all the parties to a common platform – streamlined clearance processes reducing clearance time to few days, increased revenue of about 50% in first 18 months.
Why PPP/RBF vs Supply Contract – Lessons from Virginia Tax (3)

Reforming Virginia’s Tax System

- US$ 123million Contract with Private Partner – CGI-AMS to automate tax system including financing of all hardware, software, re-engineering of all processes and replacement of entire technology platform.
- Recovery of investments from increased tax revenue based on improved processes.

Results

- Initial revenue split of 90% to Private partner and 10% for Virginia tax dept, changing to 70%/30% after 7yrs.
- Partnership resulted in more than US$ 300 million in previously uncollected revenue.
- Continues to generate nearly US$72 million/yr in additional revenue to fund state services
- Customers continue to benefit from new enhanced on-line services.
• Timely provision of resources, access, accurate information for execution of contract.
• Facilitate process to obtain relevant permits, approvals, licenses.
• Where required, facilitate process to acquire/upgrade telecom & electric power services.
• Provide qualified personnel to support implementation.
• Assume any duties such as importation or customs duties/taxes and other levies payable in-country for supply of goods & services.
• Assume primary responsibility for Operational Acceptance Tests.
Role of Partners - Private

- Design/implement applications and business processes to allow agencies to provide superior services.
- Provide processes to identify non-compliant citizens/businesses through data analysis; assist in identification of fraudulent activities.
- Provide common services that may be used by other agencies to improve citizen services.
- Provide access for citizens/businesses to engage with Government in transparent way.
- Increase skill and efficiency of Govt employees through use of business tools/training.
- Transfer ownership of IT and goods to Govt after operation period.
What’s in it for the Private Partner

• Receive payments for delivered system, goods and services.
• Payment of interests accrued (calculated at LIBOR plus 2%).
• Total Payment limited to Total Cost plus the undiscounted Total Recurrent Cost.
• Payment from 2 sources:
  – (1) eGhana - $20million; and
  – (2) a Special Repayment Escrow Account (SREA) to be established by Public Partner and funded by:
    • depositing 85% of incremental revenues (any increase in revenues over and above the previous five year trend line)
What’s in it for the Public Partner

• All Incremental Revenues beyond amount used to pay Private Partner’s investment plus interest for deferred payments.

• Private partner bears most of the risk - provides, installs, supports and maintains the systems before, during AND after implementation, thereby guaranteeing project continuity and success in a challenging environment.

• Streamlined and Broadened tax base and potential increase in revenues, reduced inefficiencies and cost.

• Tax payers gain access to new, simplified online services.
Challenges of the Contract – (Pre-Contract Signature)

• GoG request to rebid due to non-compliance of bidders.

• Initial Bid prices about 40% higher than GoG projection.

• Request to WB to increase Public sector contribution to stimulate private sector interest.

• Protracted Review Process (both WB and GoG) in view of relatively complicated process with PPP.
Challenges – During Implementation

- Lost time due to Institutional changes immediately following contract signature – convergence of single tax units into Ghana Revenue Authority (GRA). Parliament established GRA 7 months after contract became effective in April 2009, New commissioner general took office another 13 months after in May 2010.

- Ongoing reform of the converged revenue agencies makes system design, business process re-engineering and connectivity development challenging eg. i) Number of offices for connectivity changed in view of convergence – more operational offices, fewer head offices; ii) institutional capacity changing as a result, and inadequate technical staff to assist in implementation, and iii) delayed approvals for LAN, WAN, Power Cable, Disaster Recovery Center with changing needs/requirements.

- Payment Structure (WB component) based on Full Operational Acceptance Test very challenging for private partner in view of delays; particularly challenging for sub-contractors.

- Speed of payments under RBF contradicts WB emphasis on quick disbursing projects.
Lessons in RBF design & implementation

- Tax Modernization projects are not easy to design/execute. Disbursements (especially when linked to results) can appear slow – eGhana, Vietnam
- Need for constant reinforcement/sharing of lessons of potential advantages of RBF over supply contracts – VATAX, GCNET, and other success stories
- Complexity of PPP/RBF requires continuous sensitization of public partner and relevant stakeholder institutions throughout the project implementation process
- Important for RBF to be integral part of broader reform agenda
- Need for balanced and flexible incentive structure for private partner without increasing risk to public partner – for eGhana, considering replacement of one time operational acceptance with 3 phased acceptance